2 The South Asian Story of Development: Opportunities and Risks
The role of the business community[1]

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I think our real challenge is to make our political processes work at something that even remotely resembles the efficacy of our technological know-how right now, in getting us connected from miles apart. Bringing together the business community of the South Asian region is one of the most promising ways forward. We have a remarkable mix of positive progress and trust, while at the same time, certain areas are experiencing stagnation. The region presents great opportunity, but also enormous risk. On the one side, we have fast economic growth, as is absolutely the case in India—one of the fastest-growing economies in the world, an economy that has now grabbed the attention and captured the imagination of the world in a way that China had before. At the same time, several other countries in the South Asian region are also experiencing brisk economic growth. Yet what we also still see is a considerable amount of turmoil, a failure to complete peace processes in several parts of the region, and a failure to achieve the cooperation in economic enterprise within the region, with skill being divided along ethnic, or sectarian, or political lines. I am a big believer in business communities everywhere being in the lead in solving such problems. I believe that this will be true for South Asia as well.

I spend most of my time on the Millennium Development Goals project in Africa, which has the highest poverty rates in the world, and where economic growth has not come in the way that it has to South Asia. But it is no secret that South Asia remains the region with the largest absolute number of people in extreme poverty. While the count is debated, it is still over 300 million people in South Asia, and there may be as many as 400 million people living in what we would call extreme poverty, meaning poverty that is so severe that life is a struggle for survival.

The good news, of course, is that South Asia has made a tremendous amount of progress over the last 25 years, unlike Sub-Saharan Africa. In South Asia, the rate of extreme poverty has come down from around 50 percent back in 1970s, to perhaps 25 percent to 30 percent today. But in a region of 1.5 billion people, it represents a considerable number of people who are in extreme poverty. While there has been marked improvement in the important indicators—life expectancy, child mortality rates, literacy rates, etc., it is also true that the levels of those critical indicators, which really signal the

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poverty of life, show that South Asia is still between where it once was and where it aspires to be. Life expectancy in South Asia remains between 60 and 65 years, when in high-income countries, life expectancy is pushing beyond 80 years. Under-5 mortality rates in the high-income countries are well under 10 for 1,000 live births, whereas in South Asia they remain at 80 to 100. Of course, these statistics are averaging over very diverse regions, as well as disparities across countries, to give an overall picture.

We see many, many of the social problems still continuing. So, from my point of view as one who focuses on meeting basic needs and achieving the Millennium Development Goals, South Asia again presents a mixed picture: some significant progress, still vast numbers of extreme poor, and some really notable shortcomings. Very high under-nutrition rates remain a problem throughout the region. Children who do not get proper nutrition during the infancy stage and early years of life, constitute about one-fourth of the children of the region. This is shocking because the more we learn, the more we know that early nutrition for children is critical for a healthy and safe life, for cardinal development and for physical development, and that under-nutrition not only affects children's ability to learn and develop, but also increases the risk of diseases—cardiovascular disease, diabetes (which is now an epidemic in South Asia) and many other serious problems.

However, the region's potential for growth cannot be denied, given the level of progress made so far. I would like to discuss some of the challenges, as well as their likely solutions, and what the role of the business community can be. The rate of poverty still signals the intense pressures, particularly in the countryside. There is much urban poverty, too, but the concentration of poverty in South Asia remains in the countryside, partly because that is where most people live, and partly because the rates of poverty are higher in rural areas than in urban ones. The starting point in looking for the causes is the incredible population densities in South Asia. This has been true for two millennia now, but it has become much more extreme in the past 50 to 100 years. South Asia's land-to-person ratio is about the lowest in the world, and it continues to decline. So there is rapid population growth, particularly in rural areas, in the face of what is already extraordinary rural densities and extraordinarily small land sizes. Not surprisingly, the poverty head count is strongly correlated either with landlessness in rural areas or very small farm sizes—sometimes 0.1 hectares or 0.2 hectares.

We also find that the population growth continues to be high mainly because the fertility rates of women remain very high. Even though there has been much demographic transition in several key indicators, the total fertility rates in rural South Asia remain, perhaps, four children per woman. It implies that each woman is raising, among surviving children, an average perhaps of 1.5 daughters per mother, and that together with a rising survival of those over 65 years means continued rapid population growth. If today the population is 1.5 billion in South Asia, the United Nations' medium-fertility forecast for the region is about 2.5 billion people by midcentury, which would make it the most crowded place in the world, and where the farm sizes will decline. Of course this is a forecast we should not blithely accept. A more rapid voluntary reduction of fertility rates would do a lot of good for the region.

A third aspect is the still low levels of social investment in critical areas, particularly education and health, to which I will come back in a few minutes. Though it is true that the overall literacy rates have gone up, the number of young girls who do not finish primary school, who do not become functionally literate, still remains very high, and that is part of the syndrome of their poverty, and is part of the syndrome of the high fertility rates that continue as well.

The fourth point that I would mention is especially relevant in light of crowding, but also in light of global changes. South Asia is extraordinarily vulnerable to environmental risk, and I would put water risk right at the top. In fact, the water challenge in South Asia is so significant that nobody can yet find an answer. It is not only a grave problem, but also highly complex and multifaceted. Many parts of South Asia are inherently water-stressed regions. Many parts of South Asia depend on rain-fed agriculture, which is highly vulnerable, and life may become more vulnerable with global climate change. Also, hundreds of millions of people depend on groundwater. One of the great revolutions of the last 25 years is the pumping from bore holes in the Ganges Valley, the Brahmaputra, and the other great river systems in South Asia. However, it is now leading to a collapse of water tables. In Punjab and some other places, the water table is now down to 500 feet below the surface, and increasing numbers of dry bore holes are leading farmers to utter desperation.

Let me add one more major consideration on the environmental side, and that is global climate change, which is so well appreciated now. It was the subject of the major U.N. study by the Inter-Governmental Panel on Climate Change (IPCC) led by Dr. R.K. Pachauri of The Energy Research Institute (TERI) in New Delhi. The IPCC (which shared the 2007 Nobel Peace Prize for its efforts) has confirmed that human-made climate change is accelerating, and severely threatens the water situation throughout South Asia in a number of ways. The monsoon patterns may change adversely, though in ways that are difficult to know with certainty. One possibility is that the monsoons would become more intense, but over a shorter average period of time, thereby risking more floods and more crop failures. Dry areas are likely to get still drier because of higher temperatures and higher potential evapo-transpiration. Perhaps most predictably, climate change will have a serious impact by melting the glaciers of the Himalayas, and changing the timing and amount of annual snow melt in the Himalayas so that the water availability and soil moisture become lower in the spring and summer in the great basins of the Indus, Ganges, Jumna, and Brahmaputra rivers. Such changes in the water flows of the great river systems of South Asia will threaten food production in the region.

Hence there are very serious environmental challenges, which would be tough enough even if the population was not expected to increase by another 50 percent. But to face these environmental threats while the population grows by several hundred million or more is really an extraordinary challenge for the region to the year 2050. At the same time, I see South Asia as a region with tremendous dynamism, and a tremendous potential for breakthrough. Again, I see India being, perhaps, the fastest-growing major economy in the world right now, similar to China's rapid economic development. A tremendous surge in the number of qualified graduates and engineers and scientists is thrilling.

In addition to the major risks that I've already emphasized — the continuing population pressure, undernourishment, water stress, high fertility rates, and lack of investment in social and human capital – I must add the dangerous conflicts that still prevail in the region: civil strife in Sri Lanka and Nepal and the ongoing conflicts between Pakistan and India. The risk that these conflicts will not only persist but escalate is of course exacerbated by the extraordinary social, ethnic, linguistic, and religious diversity and division in the region.

While outlining the risks and opportunities, I believe that there are practical solutions to all these problems. I believe that the South Asian Association for Regional Cooperation (SAARC) and the business community can play a leadership role. SAARC is critical because regional integration is going to be the only way to find solutions to many of these problems. Regional integration is a necessary part of solutions for the conflicts, for the environmental challenges, for economic development through increased trade, just as integration has played a vital role in Europe. At the same time as being the engine of growth, the business community also needs to be in the lead in telling politicians and the broad public to get serious, make peace, build infrastructure, and invest in people, so that business and society as a whole can get on with providing practical solutions. Looking ahead at those practical solutions, I would like to emphasize three.

First, I would put great stress on real integrated development of rural areas. This is where hundreds of millions of extremely poor people live, and where their isolation and lack of services is profound. The evidence is overwhelming. If roads and power, schools and clinics, are available in rural areas, life can be transformed. Not only the agricultural productivity will rise sharply, but non-agricultural manufacturing and services can develop sharply in rural areas as well. One of the stunning facts of most of South Asia is the systemic under-investment in rural areas for decades, and this has occurred in health care; to some extent in schooling, though that is improving; and in other basic services. The situation has improved gradually over the last decade. But when I look at the situation in rural India which I know best, the underinvestment, for example, in health care remains remarkable. India and the rest of South Asia still spend less than 2 percent of GNP on public health. Sometimes it is just 1 percent of GNP. This is a completely inadequate level, and it then contributes to continued high undernourishment, high child mortality rates, and continued high fertility rates.

Hence, increasing the investments in rural areas, ensuring connectivity of all rural villages with roads, power, telecommunications, and the Internet, ensuring a network of public health facilities, ensuring that children are in proper public schools and are completing not just primary education but secondary education, are other important things. The rural areas tend to get underserved. But voices are being raised, and it is vital that the politicians respond. We know businesses can make money in rural areas as well. But that depends on a basic structure of public investment to build out the infrastructure, roads, power, telecom, Internet, public health, and education. All of this is essential, and I think it is a great challenge ahead.

The second big challenge is regional integration in trade. SAARC has been around for many years now, but its ability to make change has always been impeded by the poverty of the region. Regional integration could be the most crucial engine of growth for a true boost in South Asia. The market is vast. The ability to integrate from a feasible point of view is very large. Yet the amount of actual infrastructure for transport, communications, and port services within the region still lag significantly, and the intra-regional trade is far below what it can and should be. The amount of trade of India or Pakistan or Bangladesh within the SAARC region is a tiny share of their total trade, abnormally and inefficiently low.

The lessons of Western Europe are profoundly important for South Asia. We are now in the 50th year of the European Community, now the European Union. This is the 50th anniversary of the 1957 Treaty of Rome. The worst wars in human history took place in Europe in the 20th century, and just in the shadow of those wars came a durable peace and the deepest economic integration among countries of any part of the world. If Germany and France can make peace, Pakistan and India can make peace as well, and can thereby have the same kind of dramatic progress of economic development achieved in post-World War II Europe. The European countries, in the shadow of two world wars and the Holocaust, had finally and rightly decided that enough was enough. They grasped the nettle of peace. South Asia can and should do the same.

SAARC should be able to put forward a development agenda that is truly dynamic and truly brings countries together at this point in the 21st century. I believe that regional integration would lead to a dynamism of trade of huge proportions and the export-to-GNP ratios would double within the SAARC region if proper infrastructure, air travel, fiber optic connections, regular overland—rail, road, and bus—services are integrated, and roads are expanded and built between the regions. I think it would have a phenomenal effect, and I think it would be of huge benefit for the well-being of the people.

The third area, which I have already mentioned at length, is regional environmental management. It may be true that there is no region that has greater environmental stress than South Asia. The whole region is the most highly densely populated part of the world, and under multiple environmental stresses, current and even more severe in the future. I think the countries of the region, in cooperation, therefore need to think much harder about how to handle the existing environmental stresses and those which will intensify in the future.

Since the water supplies of the region depend heavily on river systems that cut across national boundaries, all being part of the Himalayan river systems, there is no way to solve the water problems except through peaceful development and peaceful integration. Even the safety of the water that is being used right now is not adequate in many places, for example because of the arsenic poisoning and fluoride poisoning in India and Bangladesh. The people in Bangladesh and elsewhere who are drinking water that is contaminated with arsenic through natural processes, leading to arsenicosis and to serious long-term disease, need to be assisted urgently. This is an urgent problem, which

the whole world should be assisting to solve, rather than standing by as now and leaving Bangladesh essentially to solve it on its own.

My fourth point is directly to the business community. My experience in many parts of the world has shown me that business leadership can play a crucial role in political development, democratization, and peace. Business people are practical. They want to do business. They want expanded markets. They do not really care too much who their customers are, and therefore they are by virtue of their situation somewhat less interested in provoking or sustaining social divisions. I think that this is the right way to solve problems, to get down to business, create employment, and improve the economic prospects of people. The business community is also, to an important extent, the eyes and ears of their countries vis-à-vis the world community. They are out in the international markets ahead of the general public. They have to emphasize to the people of South Asia that this is a competitive world, that SAARC does not have time to lose, that the jobs that do not come to South Asia go to East Asia, or that the opportunities for getting ahead are not going to wait on South Asia.

Let me finally conclude by saying it is not only South Asia, it is all of Asia where, I think, the world looks right now. Asia will be the center of gravity of the world's economy in the 21st century. It is where most of the people are. I find it thrilling to watch the Indian Ocean trade come back to life and to the center of the world economy, as it was during the great history of centuries past. Now Africa, where I work a lot, and South Asia and East Asia, are all becoming integrated in regional trade again. This is a marvelous thing for a very large part of the world and I am thrilled by it. It is a success on which the whole world depends. I think the initiatives that the business community is taking today can play an important role in that.